

Xavier University

Financial Statements as of and for the
Years Ended June 30, 2021 and 2020, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Xavier University
Cincinnati, Ohio

We have audited the accompanying financial statements of Xavier University (the "University"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

September 16, 2021

XAVIER UNIVERSITY

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2021 AND 2020 (Dollars in thousands)

	2021	2020
ASSETS		
CASH	\$ 37,567	\$ 31,600
SHORT-TERM INVESTMENTS	11,032	33,236
ACCOUNTS AND LOANS RECEIVABLE:		
Student accounts receivable	3,923	3,601
Student loans receivable—less allowance for doubtful loans of \$845 and \$777 in 2021 and 2020, respectively	1,379	1,637
ACCRUED INCOME RECEIVABLE	5,155	2,104
CONTRIBUTIONS RECEIVABLE—Net (Note 6)	38,486	42,265
PREPAID EXPENSES, DEFERRED CHARGES—Other assets	6,939	5,920
INVESTMENTS (Note 7)	389,272	296,350
OPERATING LEASE RIGHT-OF-USE ASSETS (Note 17)	2,306	-
CONSTRUCTION IN PROGRESS	13,360	9,900
INVESTMENT IN PLANT—Net of accumulated depreciation (Note 10)	<u>332,825</u>	<u>333,443</u>
TOTAL	<u>\$ 842,244</u>	<u>\$ 760,056</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 8,721	\$ 10,842
Advance payments and deposits	8,261	8,299
Accrued compensation costs	19,450	8,952
Accrued postretirement benefit costs (Note 13)	2,189	2,340
Deferred revenue	13,202	12,079
Interest rate swap	19,905	27,708
Operating lease liabilities (Note 17)	2,136	-
Indebtedness (Note 11)	186,506	190,082
Refundable advances (Note 2)	<u>630</u>	<u>1,126</u>
Total liabilities	<u>261,000</u>	<u>261,428</u>
NET ASSETS:		
Without donor restrictions (Note 4)	287,181	257,198
With donor restrictions (Note 5)	<u>294,063</u>	<u>241,430</u>
Total net assets	<u>581,244</u>	<u>498,628</u>
TOTAL	<u>\$ 842,244</u>	<u>\$ 760,056</u>

See notes to financial statements.

XAVIER UNIVERSITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021 (Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES:			
Tuition and fees	\$ 238,071	\$ -	\$ 238,071
Less student aid	<u>(102,022)</u>	<u>-</u>	<u>(102,022)</u>
Net tuition	<u>136,049</u>	<u>-</u>	<u>136,049</u>
Sales and services of auxiliary enterprises	38,718	-	38,718
Less student aid	<u>(3,950)</u>	<u>-</u>	<u>(3,950)</u>
Net auxiliary enterprises	<u>34,768</u>	<u>-</u>	<u>34,768</u>
Government grants and contracts	13,042	-	13,042
Private gifts, grants, and contracts	4,940	7,639	12,579
Endowment income used in operations	93	6,865	6,958
Investment return—operating	1,045	-	1,045
Other sources	<u>2,741</u>	<u>-</u>	<u>2,741</u>
	192,678	14,504	207,182
Net assets released from restriction	<u>12,607</u>	<u>(12,607)</u>	<u>-</u>
Total operating revenues	<u>205,285</u>	<u>1,897</u>	<u>207,182</u>
OPERATING EXPENSES:			
Instruction	78,001	-	78,001
Public service	875	-	875
Academic support	10,749	-	10,749
Student services	18,891	-	18,891
Institutional support	28,721	-	28,721
Operation and maintenance of plant	19,251	-	19,251
Auxiliary enterprises	<u>39,709</u>	<u>-</u>	<u>39,709</u>
Total operating expenses	<u>196,197</u>	<u>-</u>	<u>196,197</u>
INCREASE IN NET ASSETS FROM OPERATIONS	<u>9,088</u>	<u>1,897</u>	<u>10,985</u>
NONOPERATING ACTIVITIES:			
Contributions and change in contributions receivable for nonoperating purposes	-	(56)	(56)
Contributions and change in contributions receivable to endowment funds	-	5,109	5,109
Investment return—net of amounts used in operations	15,443	46,584	62,027
Loss on disposal of property and other	(549)	35	(514)
Actuarial change in annuity liability	-	(936)	(936)
Actuarial change in post-retirement health care benefits	151	-	151
Loss on debt defeasance	(1,953)	-	(1,953)
Change in fair value of interest rate swap agreements	<u>7,803</u>	<u>-</u>	<u>7,803</u>
Increase in net assets from nonoperating activities	<u>20,895</u>	<u>50,736</u>	<u>71,631</u>
INCREASE IN NET ASSETS	29,983	52,633	82,616
NET ASSETS—Beginning of year	<u>257,198</u>	<u>241,430</u>	<u>498,628</u>
NET ASSETS—End of year	<u>\$ 287,181</u>	<u>\$ 294,063</u>	<u>\$ 581,244</u>

See notes to financial statements.

XAVIER UNIVERSITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020 (Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES:			
Tuition and fees	\$ 224,008	\$ -	\$ 224,008
Less student aid	<u>(91,373)</u>	<u>-</u>	<u>(91,373)</u>
Net tuition	<u>132,635</u>	<u>-</u>	<u>132,635</u>
Sales and services of auxiliary enterprises	43,882	-	43,882
Less student aid	<u>(3,461)</u>	<u>-</u>	<u>(3,461)</u>
Net auxiliary enterprises	<u>40,421</u>	<u>-</u>	<u>40,421</u>
Government grants and contracts	3,513	-	3,513
Private gifts, grants, and contracts	7,965	7,150	15,115
Endowment income used in operations	90	6,461	6,551
Investment return—operating	2,706	-	2,706
Other sources	<u>3,617</u>	<u>-</u>	<u>3,617</u>
	190,947	13,611	204,558
Net assets released from restriction	<u>11,490</u>	<u>(11,490)</u>	<u>-</u>
Total operating revenues	<u>202,437</u>	<u>2,121</u>	<u>204,558</u>
OPERATING EXPENSES:			
Instruction	76,539	-	76,539
Public service	1,137	-	1,137
Academic support	11,449	-	11,449
Student services	20,977	-	20,977
Institutional support	30,594	-	30,594
Operation and maintenance of plant	15,360	-	15,360
Auxiliary enterprises	<u>43,160</u>	<u>-</u>	<u>43,160</u>
Total operating expenses	<u>199,216</u>	<u>-</u>	<u>199,216</u>
INCREASE IN NET ASSETS FROM OPERATIONS	<u>3,221</u>	<u>2,121</u>	<u>5,342</u>
NONOPERATING ACTIVITIES:			
Contributions and change in contributions receivable for nonoperating purposes	-	5,947	5,947
Contributions and change in contributions receivable to endowment funds	-	3,791	3,791
Investment return—net of amounts used in operations	(138)	(7,720)	(7,858)
Actuarial change in annuity liability	-	108	108
Actuarial change in post-retirement health care benefits	(547)	-	(547)
Change in fair value of interest rate swap agreements	(9,673)	-	(9,673)
Contributed capital from affiliated entity	<u>1,788</u>	<u>-</u>	<u>1,788</u>
(Decrease) increase in net assets from nonoperating activities	<u>(8,570)</u>	<u>2,126</u>	<u>(6,444)</u>
(DECREASE) INCREASE IN NET ASSETS	(5,349)	4,247	(1,102)
NET ASSETS—Beginning of year	<u>262,547</u>	<u>237,183</u>	<u>499,730</u>
NET ASSETS—End of year	<u>\$ 257,198</u>	<u>\$ 241,430</u>	<u>\$ 498,628</u>

See notes to financial statements.

XAVIER UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020 (Dollars in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 82,616	\$ (1,102)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,466	18,003
Amortization of bond premium and discount	(1,544)	(485)
Loss on disposal of property and equipment	514	-
Loss on debt defeasance	1,953	-
Provision for losses on student loans	68	79
Provision for losses on contributions receivable	(200)	(42)
Increase in accounts receivable	(322)	(334)
Decrease in contributions receivable	3,979	21
Increase in accrued income receivable	(3,051)	(1,641)
(Increase) decrease in prepaid expenses, deferred charges, and other assets	(1,338)	1,371
Increase (decrease) in accounts payable and other accrued liabilities	5,803	(8,971)
Increase in deferred revenue	1,123	2,224
Contributions to endowment and similar funds	(5,806)	(7,422)
(Decrease) increase in fair value of interest rate swap agreements	(7,803)	9,673
Change in net realized and unrealized (gains) losses on investments	<u>(65,955)</u>	<u>3,934</u>
Net cash provided by operating activities	<u>28,503</u>	<u>15,308</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	285,449	383,812
Purchases of investments	(290,256)	(367,213)
Purchases of property and equipment	(19,244)	(31,386)
Student loans issued	(176)	(193)
Student loans repaid	<u>366</u>	<u>545</u>
Net cash used in investing activities	<u>(23,861)</u>	<u>(14,435)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions to endowment and similar funds	5,806	7,422
Proceeds from issuance of bonds	58,205	-
Redemption of bonds payable	(57,606)	-
Debt issuance costs	(599)	-
Payments of bonds and notes payable	(3,985)	(6,115)
Grants advanced	<u>(496)</u>	<u>(871)</u>
Net cash provided by financing activities	<u>1,325</u>	<u>436</u>
NET CHANGE IN CASH	5,967	1,309
CASH—Beginning of year	<u>31,600</u>	<u>30,291</u>
CASH—End of year	<u>\$ 37,567</u>	<u>\$ 31,600</u>
SUPPLEMENTAL DISCLOSURES:		
Property and equipment in accounts payable and accrued expenses	<u>\$ 263</u>	<u>\$ 2,746</u>
Right-of-use assets obtained in exchange for lease obligations	<u>\$ 2,624</u>	<u>\$ -</u>
Interest paid	<u>\$ 7,715</u>	<u>\$ 8,513</u>

See notes to financial statements.

XAVIER UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

(Dollars in thousands)

1. ORGANIZATION

Xavier University (the “University”) is a not-for-profit co-educational institution founded and sponsored by the Society of Jesus (“the Jesuits”) located on a 190-acre campus in Cincinnati, Ohio. The University was founded in 1831 and currently enrolls approximately 7,000 students in undergraduate and graduate programs. The University is a qualifying organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”).

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Although it is not possible to determine the pandemic’s ultimate length, severity, or impacts on the economy or the University’s finances, the University could experience material adverse effects posed by the risks, or the University’s stakeholders’ perceptions of the risks, related to COVID-19. As a response, in March 2020, the University transitioned to remote learning for all courses for the remainder of the Spring term. Employees were instructed to work from home until further notice unless their work required them to remain on campus. This change resulted in foregone revenues, the most significant of which resulted from the refunding of a portion of room and dining services revenues, as described in Note 2. Classes for the Summer 2020 terms were offered entirely online, and all Summer study abroad programs were cancelled. The University fully reopened its campus for the Fall 2020 term, following guidelines from the Centers for Disease Control and Prevention (“CDC”) and the state of Ohio. The federal government provided special funding to support higher education during the pandemic. The level of funding received and utilized by the University is described in Note 19.

The pandemic could continue to materially affect the University’s ability to conduct its operations, the cost of its operations, and the generation of certain revenue, including from enrollment and other auxiliary services, as well as from fluctuations in financial markets and fundraising, and such effects could be consequential to the University. The full extent of the impact of COVID-19 on the University will depend on various future developments, particularly the duration and depth of the pandemic, which may be influenced by emerging medical treatments and applicable health and safety regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The financial statements include the consolidated financial information of several entities that it controls which hold title to various parcels of land, primarily on which the University resides. The University fully funds these entities and any related property acquisitions, improvements, and expenses. The University is the sole controlling entity. The University also has a controlling interest in its affiliation with a local healthcare organization for the not-for-profit entity Xavier University Student Health and Wellness Center Corporation (“Center Corp”) (see Note 18). Center Corp’s financial activity is consolidated into the University’s financial statements.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets without Donor Restrictions—Net assets that are not subject to explicit donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees (the “Board”) or the University, or may otherwise be limited by contractual agreements with outside parties.

Net Assets with Donor Restrictions—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. These also include net assets that are to be maintained permanently by the University. Generally, all or part of the income earned on investments with these restrictions may be used by the University for general or specific purposes consistent with the donor-imposed stipulations.

Revenues from sources other than contributions are reported as increases in net assets without donor restrictions unless use of the related assets is limited by imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction on the Statements of Activities. Restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Realized and unrealized gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. The Ohio Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) allows the Board to appropriate a percentage of the net appreciation on endowment accounts as is prudent considering the University’s present and anticipated financial requirements, expected total return on investments, market price trends, and general economic conditions, unless directed by the donor’s intent. The endowment spending policy is based on a spending rate established by the Board. This rate represents the expected long-term return on endowment investments less an allowance for the preservation and growth of principal.

Contributions, including unconditional promises to give (“contributions receivable”), are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the time period over which payments are to be made. Collectability is reviewed periodically and appropriate reserves are maintained. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions based upon management’s judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Revenue—Revenue is recognized upon transfer of control of promised goods or services to customers in an amount that reflects the consideration the University expects to receive in exchange for those goods or services. Revenues from contracts with customers is derived primarily from tuition, student program fees and auxiliary activities.

The University disaggregates revenue based on revenue stream and believes that the following information provides a reasonable representation of how performance obligations relate to the nature, amount, timing and uncertainty of revenue and cash flows.

Tuition and fees are generally collected in advance and are initially recorded as deferred revenue. The University does not recognize revenue until after the add/drop date due to uncertainty related to those events. Generally, the University offers refunds for classes to students who decide to withdraw from a course prior to the add/drop date. After the add/drop date, no refund is granted. Historically, the University has not had material refunds after the add/drop date.

Tuition scholarships awarded by the University represent a reduction of the tuition transaction price. The University awards both need-based and merit-based scholarships. Scholarships are generally awarded for the academic year, and are applied to the students' account during each academic term. Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting body. The University's academic terms consist of a Fall, Spring, and Summer terms. Academic terms are determined by start dates, which vary by program and are generally 8–16 weeks in length. Except for certain programs in the Summer term, the academic terms generally have start and end dates that fall within the University's fiscal year.

Auxiliary services revenue consists primarily of fees for room and dining services ("board"), athletics, noncredit programs and facilities rentals. The University considers each type of auxiliary services revenue as separate performance obligations. For the year ended June 30, 2020, students were refunded a prorated amount of room and board charges for the Spring 2020 term due to COVID-19; these refunds totaled approximately \$6,400.

Room fees are charged at different rates depending on the residence facility and room accommodations. Room fees are billed in advance of each academic term, and recognized as revenue during the period over which the housing is provided. While the University believes the residential experience is an integral part of a student's education and experience, the University considers the residential arrangement to be a distinct performance obligation from the academic services. Although first- and second-year students are expected to live on campus, exemptions are possible, primarily for students living with family or married students.

Dining service fees are charged at different rates depending on the level of access to dining services selected by the student. Dining services are generally billed in advance of each academic term, and are recognized as revenue over the period during which the dining services are offered.

Some scholarships may be applied against room and board and therefore represent a reduction of the transaction price. Such awards are generally granted for the academic year, and are applied to the student's account during each academic term. Room and board scholarships of \$3,950 and \$3,461 were included as a reduction in auxiliary services revenue for the years ended June 30, 2021 and 2020, respectively.

Revenue earned from athletic ticket sales, athletic conference distributions, and sponsorships and for various conference services offered by the University are recognized as services are performed or once the performance obligations are complete.

Other operating revenue consists of revenue generated by the University under contractual arrangements deemed to be exchange transactions. Major revenue streams in this category include rental income generated by various residential and commercial properties owned by the University including summer rentals, the University's Montessori school and related childcare program, and other supplemental income. Revenue from these activities is generally recognized as services are performed or when the performance obligation is satisfied.

The majority of the University's revenues from contracts with customers are from performance obligations with an initial expected duration of one year or less. Prices are specific to a distinct performance obligation and do not consist of multiple transactions.

The University records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenue for revenue from contracts are classified as liabilities on the Statements of Financial Position and as of June 30, 2021 and 2020, were \$13,202 and \$12,079, respectively.

Use of Estimates—University management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of assets and liabilities to prepare these financial statements in conformity with US GAAP. Actual results could differ from those estimates.

Cash and Short-Term Investments—Cash consists principally of amounts held in checking and savings accounts in various financial institutions with an original maturity of three months or less. Short-term investments consist of commercial paper, certificates of deposit, short-term fixed income securities, cash equivalents held in managed accounts and US treasuries. All short-term investments are recorded at fair value.

Financial instruments that potentially subject the University to significant concentrations of credit risk consist principally of cash deposits. The University maintains cash balances at financial institutions with a credit rating of A with Fitch Ratings. Generally, amounts invested with financial institutions are in excess of Federal Deposit Insurance Corporation insurance limits.

Accounts and Loans Receivable—Accounts receivable consist of amounts due from students for tuition, fees, room, and board. Loans receivable consist primarily of loans made to students under US government loan programs. Accounts and loans receivable are recorded at estimated net realizable value. The allowances for doubtful accounts and loans are based on expected collections on these accounts and loans.

Income Taxes—The University is a qualifying organization under Section 501(c)(3) of the Code and is, therefore, exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The University is subject to routine audits by taxing jurisdictions and there are currently no audits for any tax periods in progress. The University believes it is no longer subject to income tax examinations for years prior to 2017. As of June 30, 2021, the University has no uncertain tax positions.

Investments—The University's investments are reported at fair value and have been categorized based on the fair value hierarchy in accordance with the Accounting Standards Codification 820 (ASC 820), *Fair Value Measurements and Disclosures* (see Notes 7 and 16). Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Other investments including real estate are recorded at cost or, if acquired by gift, at fair value at the date of gift. Fair values for certain private equity, real estate, and hedge fund investments held through limited partnerships or commingled fund shares are estimated by the respective external investment managers if market values are not readily ascertainable and are considered by the University as nonmarketable alternative investments. These valuations require the use of assumptions and estimation methods

which are uncertain; and therefore the estimates could differ materially from actual results. The fair value of nonmarketable alternative investments may be based on historical cost, obtainable prices for similar assets, or other estimates. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Alternative investments are less liquid than the University's other investments.

Investment in Plant—Fixed assets are recorded at cost at the date of acquisition or fair value at the date of donation. The estimated useful lives are as follows:

Land improvements	20 years
Buildings	40 years
Building improvements	20 years
Leasehold improvements	20 years or life of lease (whichever is shorter)
Equipment	5–20 years
Library collection	20 years

Collections—The University's collections of art, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the Statements of Financial Position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as decreases in net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. There were no changes in the University's collections of art as of June 30, 2021 or 2020.

Refundable Advances—Funds provided by the US government under the Federal Perkins Loan Program are loaned to qualified students. The Federal Perkins Loan Program ended on September 30, 2017 and no new disbursements were made after June 30, 2018. These funds are ultimately refundable to the government and, therefore, are recorded as a liability in the accompanying financial statements. The amount of government refundable advances at June 30, 2021 and 2020 was \$630 and \$1,126, respectively.

Operations—The Statement of Activities reports the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all the activities of the University except for certain items specifically considered to be of a nonoperating nature. Contributions included in nonoperating activities consist of gifts restricted for the acquisition of capital assets and gifts restricted to endowment funds. All revenue from contributions receivable that is considered to be restricted due to a time restriction or a purpose restriction is included in nonoperating activities until the time such restriction has passed, at which time, the amounts are deducted from contributions and change in contributions receivable for nonoperating purposes and are included in private gifts, grants, and contracts operating revenues in the Statement of Activities. Nonoperating activities also include realized and unrealized gains or losses on investments, endowment income in excess of the established spending policy, and significant items of an unusual or nonrecurring nature.

Liquidity—Assets and liabilities are listed in their estimated order of liquidity. For those accounts for which such liquidity is unclear, additional disclosures have been made in the notes to the University's financial statements.

Insurance Reserves—The University is self-insured for certain losses relating to employee medical benefit claims and has purchased stop-loss insurance coverage to limit financial exposure to such claims. Medical benefit liabilities are estimated based on actual claims filed and estimates of claims incurred but not reported and by considering known trends and projections of future claims. The amounts actually incurred may vary from these estimates.

Financial Instruments—As of June 30, 2021 and 2020, certain financial instruments held by the University were subject to enforceable master netting arrangements by various counterparties. In general, the terms of these agreements provide that, in the event of an early termination, the counterparties have the right to offset amounts owed or owing under that and any other agreement with the same counterparty. The University's accounting policy is to offset these positions in the Statements of Financial Position. If certain financial conditions are met, the counterparties to certain financial instruments held by the University may require the University to post collateral to secure the University's contract position. There was no collateral required to secure the University's contract position as of June 30, 2021 and 2020.

Split Interest Agreements—The University has entered into split interest agreements including charitable remainder trusts and gift annuities which provide that the University, as trustee, makes payments to designated beneficiaries in accordance with the applicable donor's trust or annuity agreement. The University is also the beneficiary of charitable trusts held by third-party trustees that are accounted for as unconditional promises to give.

At the date of contribution, the University records a split interest agreement obligation to life beneficiaries based on the present value of the estimated payments to designated life beneficiaries. All valuations are classified as Level 2 within the fair value hierarchy based on a combination of the market and income valuation techniques, considering historical and projected cash flow and net income, collectability, and default rates.

The University's liability under these agreements represents the present value of estimated payments. This fair value estimate may not be indicative of the actual net realizable value or reflective of future fair values. The University believes its valuation methods are appropriate and consistent with practices used to estimate the fair value of these obligations, and the use of different methodologies or assumptions to determine the fair value of similar liabilities could result in a different fair value measurement at the reporting date (see Note 8).

Recent Accounting Pronouncements—In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU is intended to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This guidance is effective beginning on March 12, 2020, and the University may elect to apply the amendments prospectively through the year ending June 30, 2023. The University is currently evaluating the impact this guidance may have on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected. The measurement of credit losses for newly

recognized financial assets, as well as expected increases or decreases of expected credit losses that have taken place during the period, is reflected on the Statement of Activities. The measure of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount; management's judgment is to be used in determining the relevant information and estimation methods that are appropriate in the entity's circumstances. ASU 2016-13 requires enhanced disclosures that include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. On October 16, 2019, the FASB approved a delay in the proposed effective date making ASU 2016-13 effective for the fiscal years beginning after December 15, 2022. The University is currently evaluating the impact this guidance may have on its financial statements.

In September 2020, The FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the University. The amendments in this update are to be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The University is currently evaluating the impact of this guidance on its financial statements.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to defer and recognize as an asset. The amendments in this update are effective for annual reporting periods beginning after December 15, 2020. Early adoption is permitted. The University is currently evaluating the impact of this guidance on its financial statements.

Effective July 1, 2020, the University adopted ASU 2016-02, *Leases (Topic 842)*, and subsequent amendments, which establishes a new accounting model for leases. The amended guidance requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, for all leases with terms longer than 12 months on the Statement of Financial Position. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the lessee's Statement of Activities. From a lessor perspective, the accounting model is largely unchanged, except that the amended guidance includes certain targeted improvements to align, where necessary, lessor accounting with the lessee accounting model and the revenue recognition guidance in ASC Topic 606, *Revenue from Contracts with Customers*. The guidance also expands the required quantitative and qualitative disclosures surrounding leases for both the lessee and lessor.

The University adopted the new lease guidance using the transition method provided by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. Under this method, the University has applied the new requirements to leases that existed as of July 1, 2020, rather than at the earliest comparative period presented in the financial statements. Prior periods are presented under legacy ASC 840 lease guidance. The University also elected the package of practical expedients to not reassess: (1) whether

any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The effects of adopting this amendment are included in Note 17. The University also elected the practical expedient permitting the University to not separate lease and nonlease components for all lessee leases within the scope of ASC 842.

As a result of the adoption, the University recorded operating lease right-of-use assets and operating lease liabilities of approximately \$2,624 as of July 1, 2020.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets due within one year of the balance sheet date for general expenditures as of June 30, 2021 and 2020 are as follows:

	2021	2020
Total assets at year-end	\$ 842,244	\$ 760,056
Less financial assets not available for general expenditures within one year and nonfinancial assets:		
Assets with purpose restrictions	956	1,124
Student loans receivable—net	1,379	1,637
Accrued income receivable	4,142	246
Contributions receivable with time or purpose restrictions	37,624	39,336
Prepaid expenses, deferred charges—other assets	6,939	5,920
Donor-restricted endowment funds	206,833	161,395
Board or University designated endowment funds	52,499	37,218
Other investments with purpose restrictions	6,039	5,737
Operating lease right-of-use assets	2,306	-
Construction in progress	13,360	9,900
Investment in plant—net	<u>332,825</u>	<u>333,443</u>
Financial assets available at year-end for general expenditures	<u>\$ 177,342</u>	<u>\$ 164,100</u>

The University invests cash in excess of operating requirements in a combination of short, medium and long-term operating investments in accordance with policies approved by its Board. The University also maintains a \$10,000 line of credit with a bank that can be used to fund short-term liquidity needs. Additionally, amounts from its Board or University designated endowment funds can be made available to fund liquidity requirements upon approval of the Board, if necessary; however, the University does not intend to draw from its Board or University designated endowments other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation. Both designated endowment funds and donor-restricted endowments are held in a unitized pool of investments, and certain of those investments contain lock-up provisions that would reduce the total amount of investments that could be made available to fund liquidity requirements.

The University's endowment funds consist of donor-restricted and Board or University designated endowment funds. Income from donor-restricted endowment funds is restricted for specific purposes and some for general University expenditures. See Note 9 for disclosures about endowment funds.

4. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2021 and 2020 are available for the following purposes:

	2021	2020
Plant operations, net of debt	\$ 117,094	\$ 122,053
University operations and general reserves	99,018	77,781
Board or University designated endowments (see Note 9)	52,499	37,218
Contributed capital from affiliated entity	18,488	20,000
Loans	<u>82</u>	<u>146</u>
Total net assets without donor restrictions	<u>\$ 287,181</u>	<u>\$ 257,198</u>

Net assets released from net assets with donor restrictions are as follows:

	2021	2020
Satisfaction of purpose and time restrictions	<u>\$ 12,607</u>	<u>\$ 11,490</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2021 and 2020 are available for the following purposes:

	2021	2020
Specific purpose:		
Student loan funds	\$ 1,739	\$ 1,261
Awards for students and faculty	2,316	1,782
Capital and capital improvements	22,833	23,874
General endowments and operations	94,427	73,357
Professors and chairs	22,421	18,413
Scholarships	130,207	101,672
Charitable trusts	<u>2,946</u>	<u>3,031</u>
Passage of time—General endowments and operations	<u>17,174</u>	<u>18,040</u>
Total net assets with donor restrictions	<u>\$ 294,063</u>	<u>\$ 241,430</u>

The above includes net assets with time or purpose restrictions of \$167,395 and \$119,986 as of June 30, 2021 and 2020, respectively; and net assets restricted in perpetuity of \$126,668 and \$121,444 as of June 30, 2021 and 2020, respectively.

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2021 and 2020 consist of the following:

	2021	2020
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,316	\$ 10,683
One year to five years	19,565	21,419
Five years and thereafter	<u>10,905</u>	<u>12,673</u>
Total	40,786	44,775
Less allowance for uncollectible contributions	(2,039)	(2,239)
Discount for present value	<u>(261)</u>	<u>(271)</u>
Total	<u>\$ 38,486</u>	<u>\$ 42,265</u>

Contributions receivable were discounted at rates ranging from 0.25% to 1.45% as of June 30, 2021 and 0.16% to 1.92% as of June 30, 2020, respectively.

7. INVESTMENTS

Investments at June 30, 2021 and 2020 are composed of the following:

	<u>2021</u>		<u>2020</u>	
	Cost	Market Value	Cost	Market Value
Long-term investments:				
US government and agency obligations	\$ 17,830	\$ 17,759	\$ 32,870	\$ 33,492
Corporate stocks and stock funds	120,889	200,403	114,090	136,865
Corporate bonds and bond funds	125,172	126,265	85,007	87,546
Mortgage and asset-backed securities	748	783	1,225	1,309
Real assets	414	188	1,225	1,057
Alternative investments	39,086	42,084	34,921	34,291
Real estate	<u>1,790</u>	<u>1,790</u>	<u>1,790</u>	<u>1,790</u>
Total long-term investments	<u>\$305,929</u>	<u>\$389,272</u>	<u>\$271,128</u>	<u>\$296,350</u>
Short-term investments	<u>\$ 11,032</u>	<u>\$ 11,032</u>	<u>\$ 33,236</u>	<u>\$ 33,236</u>

Real assets are invested in mutual funds, commingled trusts, and/or partnership structures whose underlying investments include commodities, equities, inflation-indexed fixed income securities, master limited partnerships, and real estate.

Investment activity for the years ended June 30, 2021 and 2020 was as follows:

	2021	2020
Dividend, interest, and other investment income	\$ 4,877	\$ 6,026
Net change in realized and unrealized gains and (losses)	65,955	(3,934)
Outside investment management fees	(788)	(582)
Other investment-related expenses	<u>(14)</u>	<u>(111)</u>
 Total investment income, including net gains (losses)—net of fees and expenses	 70,030	 1,399
 Less endowment income used in operations	 6,958	 6,551
Less investment return—operating	<u>1,045</u>	<u>2,706</u>
 Investment return—net of amounts used in operations	 <u>\$ 62,027</u>	 <u>\$ (7,858)</u>

Endowment income used in operations is composed of endowment appropriations for donor-designated or Board or University designated operating purposes such as student scholarships and instructional expenses. Investment income used in operations includes investment income earned on excess operating funds and funds without donor or designated restrictions. Investment income included in nonoperating activities primarily includes accumulated but not yet appropriated endowment earnings or losses and investment income earned on unused funds set aside or restricted by donors for capital purposes.

8. SPLIT INTEREST AGREEMENTS

The University received \$865 and \$1,421 in contributions related to split interest agreements for the years ended June 30, 2021 and 2020, respectively. The present value of these agreements is based on actuarially determined life expectancy tables, trust asset growth assumptions, and discount rates ranging from 2.06% to 3.03%. A summary of assets held and obligations related to split interest agreements as of June 30, 2021 and 2020 follows:

	2021	2020
Assets:		
Charitable remainder trusts	\$ 2,287	\$ 2,630
Charitable gift annuities and trusts	<u>3,235</u>	<u>2,068</u>
 Total	 <u>\$ 5,522</u>	 <u>\$ 4,698</u>
 Liabilities—split interest agreement obligations	 <u>\$ (1,989)</u>	 <u>\$ (1,598)</u>
 Net split interest agreement asset	 <u>\$ 3,533</u>	 <u>\$ 3,100</u>

Charitable gift annuity assets are separate and distinct funds, managed as independent accounts of the University. The University maintains reserves of an amount at least equal to the designated beneficiary payments on all the outstanding gift annuity contracts.

9. ENDOWMENT FUNDS

The University's endowment consists of approximately 600 individual funds established for a variety of purposes, such as scholarships, endowed chairs, departmental and operating priorities, and other institutional support. The endowment includes both donor-restricted endowment funds and funds designated by the Board or University to function as endowments. Funds designated by the Board and the University to function as endowments are treated as net assets without donor restrictions.

The University classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with directions of the applicable donor instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is restricted is classified as net assets with donor restrictions until those amounts are appropriated for expenditure.

Endowment Net Asset Composition by Type of Fund as of June 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ 206,833	\$ 206,833
Board or University designated	<u>52,499</u>	<u>-</u>	<u>52,499</u>
Total funds	<u>\$ 52,499</u>	<u>\$ 206,833</u>	<u>\$ 259,332</u>
Changes in Endowment Net Assets for the Year Ended June 30, 2021			
Endowment net assets—June 30, 2020	\$ 37,218	\$ 161,395	\$ 198,613
Contributions and other additions	-	5,806	5,806
Total investment return—net	15,374	46,497	61,871
Amounts appropriated for expenditure	<u>(93)</u>	<u>(6,865)</u>	<u>(6,958)</u>
Endowment net assets—June 30, 2021	<u>\$ 52,499</u>	<u>\$ 206,833</u>	<u>\$ 259,332</u>
Endowment Net Asset Composition by Type of Fund as of June 30, 2020			
Donor-restricted	\$ -	\$ 161,395	\$ 161,395
Board or University designated	<u>37,218</u>	<u>-</u>	<u>37,218</u>
Total funds	<u>\$ 37,218</u>	<u>\$ 161,395</u>	<u>\$ 198,613</u>
Changes in Endowment Net Assets for the Year Ended June 30, 2020			
Endowment net assets—July 1, 2019	\$ 37,666	\$ 161,609	\$ 199,275
Contributions and other additions	-	7,422	7,422
Total investment return—net	(358)	(1,175)	(1,533)
Amounts appropriated for expenditure	<u>(90)</u>	<u>(6,461)</u>	<u>(6,551)</u>
Endowment net assets—June 30, 2020	<u>\$ 37,218</u>	<u>\$ 161,395</u>	<u>\$ 198,613</u>

Endowment assets with donor restrictions reflect the portion of perpetual endowment funds that is to be retained permanently based on either explicit donor stipulations or, absent specific donor stipulations, on management’s interpretation of its responsibilities to retain such funds in perpetuity under UPMIFA.

The University has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over time. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period as well as Board or University designated funds. Under this policy, the endowment assets are invested in a manner that is intended to provide for the preservation of capital with an emphasis on long-term growth without significant risk exposure.

To satisfy its long-term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and annual income. The University utilizes a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

The University has adopted a spending policy which appropriates 4.25% of the average fair value of each endowment fund over the rolling prior 12 quarters for distribution each year. In establishing this policy, the University considered the long-term expected return on its endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level stipulated by the donor or the amount determined by management based on its interpretation of its responsibilities UPMIFA. As of June 30, 2021, there were no donor-restricted endowment funds with fair values less than their historical values. As of June 30, 2020, the fair value of certain donor-restricted endowment funds of \$9,004 was less than the historical values of \$9,243 resulting in deficiencies of \$239. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of donor-restricted contributions and are included in net assets with donor restrictions.

10. INVESTMENT IN PLANT

The components of the University’s investment in plant at June 30, 2021 and 2020 are as follows:

	2021	2020
Land	\$ 34,059	\$ 34,059
Land improvements	47,476	47,257
Buildings and building improvements	445,439	431,958
Leasehold improvements	162	162
Equipment	37,359	34,395
Library collection	<u>816</u>	<u>816</u>
	565,311	548,647
Less accumulated depreciation	<u>(232,486)</u>	<u>(215,204)</u>
Investment in plant—net	<u>\$ 332,825</u>	<u>\$ 333,443</u>

Depreciation expense was \$18,466 and \$18,003 for the years ended June 30, 2021 and 2020, respectively.

11. INDEBTEDNESS

Indebtedness at June 30, 2021 and 2020 consists of the following:

	2021	2020
State of Ohio Higher Educational Facility Revenue Bonds:		
2010 Series—principal due annually beginning May 2013 through May 2040, interest rate ranges from 2.50% to 5.00% (original issue discount of \$447)	\$ -	\$ 40,910
2013 Series—principal due annually beginning November 2016 through November 2030, interest rate, 2.95%	-	15,610
2015 Series C—principal due annually beginning May 2016 through May 2038, interest rate ranges from 3.00% to 5.00% (original issue premium of \$5,232)	42,560	44,895
2020 Series—principal due annually beginning May 2023 through May 2040, interest rate 4.00% and 5.00% (original issue premium of \$11,020)	47,185	-
2015 Series B—principal due annually beginning May 2016 through May 2042, variable interest rate, resets monthly, 0.77% at June 30, 2021	41,185	42,375
2016 Series—principal due annually beginning May 2017 through May 2042, interest rate ranges from 3.00% to 5.00% (original issue premium of \$189)	22,895	23,355
2015 Series A—principal due annually beginning May 2032 through May 2042, variable interest rate, resets monthly, 0.77% at June 30, 2021	<u>22,575</u>	<u>22,575</u>
	176,400	189,720
Net unamortized premium	11,528	1,863
Unamortized indebtedness issuance costs	<u>(1,422)</u>	<u>(1,501)</u>
Total indebtedness	<u>\$ 186,506</u>	<u>\$ 190,082</u>

The annual maturities of indebtedness for the years ending June 30, 2021, are as follows:

Years Ending June 30		
2022		\$ 4,165
2023		6,695
2024		7,035
2025		7,390
2026		7,770
Thereafter		<u>143,345</u>
		176,400
Net unamortized premium		11,528
Unamortized indebtedness issuance costs		<u>(1,422)</u>
Total indebtedness		<u>\$ 186,506</u>

The outstanding State of Ohio Higher Educational Facility Revenue Bonds (“Bonds”) are secured by a pledge of University revenues. The Pledge Agreement (“Agreement”) secures substantially all the University’s indebtedness and the University’s obligations to any credit or liquidity facility providers or counterparties to derivative agreements relating to the Bonds. All of these obligations are secured on a parity basis and the Agreement also provides a mechanism for the University to secure future indebtedness on a parity basis. The Bonds include certain financial covenants; as of June 30, 2021, the University believes it was in compliance with these financial covenants.

Interest expense was approximately \$5,905 and \$8,054 for the years ended June 30, 2021 and 2020, respectively. The University did not capitalize any interest for the years ended June 30, 2021 and 2020.

In 2008, the University entered into interest rate swap agreements with Barclays Capital and Deutsche Bank AG. These swap agreements were amended in 2015 and have the effect of fixing the rate of interest on certain series of the Bonds, as follows:

Bonds	Notional Amount	University Pays	University Receives	Effective Date	Maturity Date
Series 2015A	\$22,575	3.316 %	67% of 1 month LIBOR	October 2008	May 2042
Series 2015B	41,185	3.658	67% of 1 month LIBOR	May 2016	May 2042

The University’s estimated liability to terminate the swap agreements was \$19,905 and \$27,708 as of June 30, 2021 and 2020, respectively. These amounts are reflected separately in liabilities in the Statements of Financial Position. The change in the fair value of the interest rate swap agreements of \$7,803 and \$(9,673) for the years ended June 30, 2021 and 2020, respectively, is included in nonoperating activities in the Statements of Activities.

The University has a \$10,000 line of credit with a bank. The line of credit is unsecured. Principal balances outstanding are payable on the expiration date with interest due monthly at the 1-month LIBOR rate plus 1.0%. There were no balances outstanding on the line of credit as of June 30, 2021 or 2020. The line of credit expires on February 24, 2022.

On July 30, 2020, the University issued \$47,185 in State of Ohio Higher Educational Facility Revenue Bonds (2020 Series Revenue Bonds) at par value with a premium of \$11,020, interest rates of 4% and 5% and final maturity on May 1, 2040. The proceeds of the 2020 Series Revenue Bonds, were used to defease the callable portions of the 2010 Series Revenue Bonds and the 2013 Series Revenue Bonds totaling \$56,520 at par value. This transaction resulted in a loss on defeasance of \$1,953 and is included in nonoperating activities in the Statement of Activities for the year ended June 30, 2021.

12. RETIREMENT PLAN

The University has a 403(b) contributory retirement plan (the Plan) through Teachers Insurance and Annuity Association (TIAA) that covers substantially all full-time employees immediately upon employment by the University. University contributions to the plan range from 8.50% to 10.00% of eligible compensation. Plan participants are also required to make contributions to the plan ranging from 2.00% to 5.00% of their compensation.

In response to the COVID-19 global pandemic and the related financial impact, the University suspended its contributions to the retirement plan in April 2020 and also suspended the requirement for mandatory employee contributions. As of July 1, 2021, the University has restored contributions to the Plan at levels ranging from 4.25% to 5.00% and reinstated mandatory employee contributions at levels ranging from 1.00% to 2.50%.

The University made contributions of approximately \$6,239 and \$5,234 for the years ended June 30, 2021 and 2020, respectively. The contributions for 2021 include a one-time payment of approximately \$5,400 made in July 2021 to make eligible participants whole for the amount of contributions that were suspended during the fiscal year. All contributions are immediately fully vested.

The University believes that the Plan is designed and operated in compliance with the applicable requirements of the Internal Revenue Code.

13. POSTRETIREMENT HEALTH CARE BENEFITS

The University sponsors a defined benefit health care plan that provides postretirement medical benefits to full-time employees who meet minimum age and service requirements. The plan is noncontributory for non-faculty employees who retired prior to December 31, 1994 and faculty who retired as of May 13, 1995.

For employees who met certain age and service requirements as of January 1, 1995, the plan has been amended to require employee contributions and establish a maximum monthly benefit to be provided by the University.

Postretirement benefit expense includes the following components as of June 30, 2021 and 2020:

	2021	2020
Service cost of benefits earned	\$ -	\$ -
Interest cost on liability	46	51
Amortization of net actuarial (gain)/loss	<u>(7)</u>	<u>(93)</u>
Net periodic postretirement benefit cost	<u>\$ 39</u>	<u>\$ (42)</u>

The following table summarizes the amounts reflected on the Statements of Financial Position, as well as the change in fair value of plan assets, and the funded status of the postretirement benefit plan as of June 30, 2021 and 2020:

	2021	2020
Changes in projected benefit obligations:		
Benefit obligation—beginning of year	\$ (2,340)	\$ (1,793)
Interest cost	(45)	(51)
Participants' contributions	-	-
Medicare Part D reimbursements	-	-
Actuarial gain (loss)	104	(653)
Benefits paid	<u>92</u>	<u>157</u>
Benefit obligation—end of year	<u>\$ (2,189)</u>	<u>\$ (2,340)</u>
Change in fair value of plan assets:		
Fair value of plan assets—beginning of year	\$ -	\$ -
Employer contributions	93	157
Participants' contributions	-	-
Medicare Part D reimbursements	-	-
Benefits paid	<u>(93)</u>	<u>(157)</u>
Fair value of plan assets—end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:		
Projected benefit obligation in excess of fair value of plan assets	\$ (2,189)	\$ (2,340)
Unrecognized transition obligation	-	-
Unrecognized actuarial loss	<u>-</u>	<u>-</u>
Net statement of financial position liability	<u>\$ (2,189)</u>	<u>\$ (2,340)</u>

The following weighted-average assumptions were made in determining the postretirement benefit obligation and the postretirement benefit cost as of June 30, 2021 and 2020:

	2021	2020
Weighted-average discount rate used to determine the projected benefit obligation	2.22 %	2.04 %
Weighted-average discount rate assumption used to determine the net periodic benefit cost	2.04 %	3.01 %

The health care cost trend rate assumption has a significant effect on the amounts reported in the financial statements. The following health care cost trend rates were assumed in the determination of the postretirement benefit obligation and net periodic benefit cost as of June 30, 2021 and 2020:

	2021	2020
Health care cost trend rate assumed for the current year	4.50 %	5.25 %
Ultimate health care cost trend rate	3.00 %	3.00 %
Year that rate reaches the ultimate trend rate	2024	2023

A one-percentage point change in the assumed health care cost trend rate would have the following effect on the postretirement benefit obligation and the net periodic benefit cost:

	1% Increase	1% Decrease
Effect on postretirement benefit obligation	\$ 149	\$ (129)
Effect on net periodic benefit cost	3	(2)

The following benefit payments, net of participants' contributions, and Medicare Part D reimbursements, which reflect expected future service, are expected to be paid:

Years Ending June 30	Benefit
2022	\$ 212
2023	207
2024	180
2025	164
2026	156
2027–2031	680

14. FUNCTIONAL EXPENSES

Expenses are presented by functional classification in accordance with the overall mission of the University. The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the University. Expenses reported by functional categories include allocations of costs for operation and maintenance of plant, interest on indebtedness and depreciation and amortization expense. The University applies various methods to allocate costs among the program and support functions, the most significant of which is by time and effort.

Operating expenses by functional and natural classification for the years ended June 30, 2021 and 2020 were as follows:

		Public	Academic	Student	Institutional	Operation and	Auxiliary	Total
2021	Instruction	Service	Support	Services	Support	Maintenance of Plant	Enterprises	2021
Salaries	\$ 41,174	\$ 405	\$ 5,163	\$ 8,466	\$ 14,676	\$ 3,461	\$ 8,886	\$ 82,231
Benefits	12,579	118	1,659	2,815	3,464	1,201	2,526	24,362
Depreciation, amortization, and interest	6,057	118	1,005	2,560	1,412	1,755	11,539	24,446
Office expenses	2,446	140	436	2,734	1,683	1,285	2,087	10,811
Travel, conference, and meetings	192	16	85	377	167	246	2,605	3,688
Cost of sales	3	-	-	-	-	1	6,912	6,916
Repairs and maintenance	286	-	271	69	5,324	7,504	2,013	15,467
Professional services	390	70	367	512	1,542	217	1,416	4,514
Other	<u>14,874</u>	<u>8</u>	<u>1,763</u>	<u>1,358</u>	<u>453</u>	<u>3,581</u>	<u>1,725</u>	<u>23,762</u>
Total	<u>\$ 78,001</u>	<u>\$ 875</u>	<u>\$ 10,749</u>	<u>\$ 18,891</u>	<u>\$ 28,721</u>	<u>\$ 19,251</u>	<u>\$ 39,709</u>	<u>\$ 196,197</u>
		Public	Academic	Student	Institutional	Operation and	Auxiliary	Total
2020	Instruction	Service	Support	Services	Support	Maintenance of Plant	Enterprises	2020
Salaries	\$ 42,127	\$ 580	\$ 5,325	\$ 8,741	\$ 15,183	\$ 3,193	\$ 9,550	\$ 84,699
Benefits	11,537	145	1,473	2,536	5,198	1,040	2,408	24,337
Depreciation, amortization, and interest	6,636	140	1,136	2,941	1,647	1,037	12,535	26,072
Office expenses	2,291	127	625	2,461	670	1,269	2,770	10,213
Travel, conference, and meetings	1,062	64	545	969	748	56	3,856	7,300
Cost of sales	-	-	-	-	-	-	7,761	7,761
Repairs and maintenance	-	-	-	67	3,332	5,457	548	9,404
Professional services	991	67	453	207	2,252	13	1,436	5,419
Other	<u>11,895</u>	<u>14</u>	<u>1,892</u>	<u>3,055</u>	<u>1,564</u>	<u>3,295</u>	<u>2,296</u>	<u>24,011</u>
Total	<u>\$ 76,539</u>	<u>\$ 1,137</u>	<u>\$ 11,449</u>	<u>\$ 20,977</u>	<u>\$ 30,594</u>	<u>\$ 15,360</u>	<u>\$ 43,160</u>	<u>\$ 199,216</u>

15. RELATED-PARTY TRANSACTIONS

The Jesuit Community at Xavier University (the "Community"), an Ohio not-for-profit corporation, is an entity separate from the University. Members of the Community serve on the University's faculty and administration and their salaries are paid, in total, to the Community. In the opinion of the University's administration, such salaries are comparable to those of other employees. Members of the Community do not participate in either the University's retirement plan or the federal Social Security program. However, the University pays the Community an amount comparable to such benefits for each Community member employed by the University. Total amounts paid to the Community are not material to the financial statements.

The financial statements include gifts of \$825 and contributions receivable of \$6,655 from members of the Board and employees, including management, for the year ended June 30, 2021. The financial statements include gifts of \$2,140 and contributions receivable of \$6,473 from members of the Board and employees, including management, for the year ended June 30, 2020.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The University uses various valuation approaches to determine fair value. ASC 820-10 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the University. Unobservable inputs reflect the University's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The carrying amount of cash, short-term investments, accounts receivable, accrued interest receivable, accrued compensation costs, and deferred revenue approximate fair value because of the short-term nature of these assets and liabilities.

The carrying value of investments, which is the fair value, is determined by management using inputs provided by an external investment manager or quoted market values. In the limited cases where such values are not available, historical cost is used as an estimate of market value.

A reasonable estimate of the fair value of the student loans receivable under government loan programs and advances from the federal government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the US government or its designees.

The carrying amount of contributions receivable approximates fair value as these donations are recorded at the net present value of amount pledged.

The fair value of indebtedness, which consists primarily of bonds payable, was approximately \$195,804 and \$198,285 as of June 30, 2021 and 2020, respectively. The methodology for determining fair value of bonds payable consists of a discounted cash flow analysis using a discount rate for each existing bond series. The carrying value was \$186,506 and \$190,082 as of June 30, 2021 and 2020, respectively.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical instruments.

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

At June 30, 2021 and 2020, the University's assets and liabilities measured at fair value on a recurring basis are summarized in the following table by the type of inputs applicable to the fair value measurement.

Description	June 30, 2021	Level 1	Level 2	Level 3
Assets:				
Investments:				
Short-term investments	\$ 11,032	\$ 11,032	\$ -	\$ -
US government and agency obligations	17,759	17,759	-	-
Corporate stocks and stock funds	200,403	200,403	-	-
Corporate bonds and bond funds	126,265	7,611	118,654	-
Mortgage and asset-backed securities	783	-	783	-
Real assets	188	-	188	-
Alternative investments	42,084	-	-	42,084
Liabilities—interest rate swap agreements	(19,905)	-	(19,905)	-

Description	June 30, 2020	Level 1	Level 2	Level 3
Assets:				
Investments:				
Short-term investments	\$ 33,236	\$ 33,236	\$ -	\$ -
US government and agency obligations	33,492	33,492	-	-
Corporate stocks and stock funds	136,865	136,865	-	-
Corporate bonds and bond funds	87,546	28,153	59,393	-
Mortgage and asset-backed securities	1,309	-	1,309	-
Real assets	1,057	-	1,057	-
Alternative investments	34,291	-	-	34,291
Liabilities—interest rate swap agreements	(27,708)	-	(27,708)	-

Alternative investments consist of private equity and hedge funds that invest across various asset classes, including leveraged buyouts, distressed debt, venture capital, secondary partnership interests, hedged equity, distressed securities, and merger arbitrage. These investment vehicles are primarily limited partnerships or other investment structures which do not have readily available market valuation information and which may have restrictive redemption provisions. The estimated fair values of investments of these partnerships are determined by the general partner or sponsor of the respective partnerships and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. These investments in partnerships are classified in Level 3 of the fair value hierarchy. Identified in the table

below is a summary of changes in fair value of Level 3 investments for the years ended June 30, 2021 and 2020.

	Private Equity	Hedge Funds	Other	Total
Ending net asset value—June 30, 2020	\$ 13,837	\$ 17,509	\$ 2,945	\$ 34,291
Capital additions or purchases	5,507	-	280	5,787
Capital disbursements or sales	(2,916)	-	(1,200)	(4,116)
Appreciation of investments	<u>3,243</u>	<u>2,409</u>	<u>470</u>	<u>6,122</u>
Ending net asset value—June 30, 2021	<u>\$ 19,671</u>	<u>\$ 19,918</u>	<u>\$ 2,495</u>	<u>\$ 42,084</u>

	Private Equity	Hedge Funds	Other	Total
Beginning net asset value—July 1, 2019	\$ 7,659	\$ 5,924	\$ 2,551	\$ 16,134
Capital additions or purchases	7,442	13,000	602	21,044
Capital disbursements or sales	(653)	-	-	(653)
Depreciation of investments	<u>(611)</u>	<u>(1,415)</u>	<u>(208)</u>	<u>(2,234)</u>
Ending net asset value—June 30, 2020	<u>\$ 13,837</u>	<u>\$ 17,509</u>	<u>\$ 2,945</u>	<u>\$ 34,291</u>

Identified in the table below is a summary of fair values, unfunded commitments, and redemption provisions:

	Fair Value	Unfunded Commitments	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Private equity	\$ 19,671	\$ 16,788	n/a	n/a	n/a
Hedge funds	19,918	-	Quarterly	n/a	90–95 days
Other	2,495	997	n/a	n/a	n/a

Private equity funds are invested primarily in a fund-of-funds structure in which the underlying managers invest primarily in leveraged buyouts, distressed debt, venture capital, and secondary partnership interests.

Hedge funds are invested primarily in a fund-of-funds structure in which the underlying managers invest primarily in hedged equity, distressed securities, and merger arbitrage strategies.

Other includes investments in credit opportunities and real estate funds.

17. LEASE COMMITMENTS

The University has operating leases primarily for campus facilities and equipment. The University determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The University has elected the short-term lease exception under Topic 842 for all leases and as such, leases with an initial term of 12 months and which do not include a renewal option whose exercise is reasonably certain, are not recorded on the Statement of Financial Position. The University recognizes lease expense for short-term leases on a straight-line basis over the lease term. Short term lease expense was not significant during the twelve months ended June 20, 2021.

The University recognizes right-of-use assets and lease liabilities based on the present value of lease payments over the lease term at commencement date. The rate implicit in the University's leases typically is not readily determinable. As a result, the University uses the 5-year treasury rate, as allowed by ASC 842, *Leases*, in determining the present value of lease payments for all leases except for a long-term lease of space, where a 20-year treasury rate is used. The treasury rates are readily available third-party rates determined at the lease commencement date and are applied at the individual contract level. On an annual basis, the University will update the rates used to calculate the present value of lease payments for new leases.

The University currently does not have any finance leases or leases that contain purchase options and does not currently sublease any leased assets.

One of the University's facility leases has terms that extend for several years and the renewals provide for rental rates that increase over time. The right-of-use asset and lease liability include the noncancelable portion of the underlying lease along with any reasonably certain lease periods associated with the available renewal periods. The remaining lease terms range from 1 to 28 years as of June 30, 2021.

Variable lease payments generally consist of certain non-lease services related to leased facilities and other lease agreements for equipment with payments based on consumption and usage. Variable lease payments are excluded from right-of-use assets and lease liabilities and are recognized as expense in the period in which the obligation is incurred. The associated expense related to variable lease payments was not material during the year ended June 30, 2021.

Quantitative information regarding the University's leases for the year ended June 30, 2021 is as follows:

Lease Cost	\$ 2,232
Other Information:	
Cash paid for amounts included in the measurement of lease liability	\$ 513
Right-of-use assets obtained in exchange for the lease obligations	\$ 2,624
Weighted average remaining lease term (in years)	6.12
Weighted average discount rate	0.96 %

Maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the lease liabilities:

Years Ending June 30	Operating Leases
2022	\$ 513
2023	278
2024	284
2025	249
2026	242
Thereafter	<u>666</u>
Total undiscounted cash flows	2,232
Less: present value discount	<u>(96)</u>
Total lease liability	<u>\$ 2,136</u>

The University also has leasing arrangements in which the University acts a lessor with terms between 1 and 43 years. These leases include a ground lease in which the University leases land to a third party. The ground lease includes certain fixed-price renewal options included in the measurement of the lease within the Statement of Financial Position. Other renewal and termination options do not significantly impact the University's lessor activity. All leases are classified as operating leases from a lessor perspective. The University owns the underlying assets associated with its operating leases and records them in "Investment in Plant – Net of accumulated depreciation" on the Statement of Financial Position.

Cash received and reported in operating cash flows for lease payments in which the University acts as the lessor was \$421 for the year ended June 30, 2021. Lease payments included in income within the Statement of Activities for the year ended June 30, 2021 were \$421.

Future minimum lease payments to be received under the non-cancellable leasing agreements as of June 30, 2021 are as follows:

Years Ending June 30	Amount
2022	\$ 863
2023	863
2024	863
2025	863
2026	863
Thereafter	<u>13,489</u>
Total undiscounted cash flows	17,804
Impact of present value discount	<u>(3,439)</u>
Present value of undiscounted cash flow	<u>\$ 14,365</u>

18. COMMITMENTS AND CONTINGENCIES

The University is involved in various legal actions arising in the ordinary course of its activities. Management believes that the ultimate liability, if any, with respect to these matters will not materially affect the financial position of the University.

The University receives grants and contracts from certain federal, state, and local agencies to fund student aid and other activities. Both direct and indirect costs that have been charged to the grants or contracts are subject to examination and approval by the granting agency. Management believes that any disallowance or adjustment of such costs would not have a material effect on the financial statements.

The University has agreements with general contractors for the design and renovation of facilities with a current guaranteed maximum price of \$21,949 of which approximately \$3,860 has been paid or accrued as of June 30, 2021.

In December 2016, the University entered into an exclusive 10-year agreement with a local healthcare organization to jointly develop academic programs and to support campus health and wellness. This agreement included the creation of a legal entity that constructed and owns a health and recreation center located on the University's campus. The entity, Center Corp, is a qualifying organization under Section 509(a)(3) of the Code; the University owns 51% of this entity. The financial activity of Center Corp is fully consolidated into the University's financial statements. The University completed construction and started operations in the health and recreation center in 2020.

19. HIGHER EDUCATION EMERGENCY RELIEF FUND AND CORONAVIRUS RELIEF FUNDS

In response to the COVID-19 national emergency, the federal government established and funded a Higher Education Emergency Relief Fund (HEERF). The HEERF allocations provided funding for both students (Student Share) as well as for the higher education institution (Institutional Share).

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created HEERF I. HEERF I Student Share grants are to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to the COVID-19 crisis. HEERF I Institutional Share is intended to cover costs incurred by the University including costs associated with significant changes to the delivery of instruction due to the coronavirus.

In December 2020, HEERF II was authorized by the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"). HEERF II Student Share may be used for any component of the student's cost of attendance or for emergency costs that arise due to coronavirus, such as tuition, food, housing, health care (including mental health care), or child care. The CRRSAA requires that institutions prioritize students with exceptional need. HEERF II Institutional Share allowable uses include: defraying expenses associated with coronavirus (including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll); carrying out student support activities authorized by the Higher Education Act of 1965, as amended, that address needs related to coronavirus; and making additional emergency financial aid grants to students.

In March 2021, the American Rescue Plan ("ARP") provided funding for HEERF III. Under ARP, any student enrolled at an institution of higher education on or after March 13, 2020 (the date of declaration of the national emergency due to the coronavirus) is eligible for emergency financial aid grants from the HEERF III, regardless of whether they completed a Free Application for Federal Student

Aid (FAFSA) or are eligible for Title IV aid. The ARP requires that institutions prioritize students with exceptional need and the Department of Education encouraged institutions to prioritize domestic students, especially undergraduates, in allocating this funding. Domestic students include citizens, permanent residents, refugees, asylum seekers, DACA recipients, other DREAMers, and similar undocumented students. The allowable uses for HEERF III Student Share were the same as under HEERF II. For the HEERF III Institutional Share, a portion of the funds must be used for: implementing evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and conducting direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances. Other than these two new requirements, allowable uses for the HEERF III Institutional Share are similar to the allowable uses under HEERF II.

In addition to the above described HEERF funds, the federal government provided Coronavirus Relief Funds (CRF) through the Ohio Department of Higher Education (ODHE). Funds were awarded to the State of Ohio as Federal Financial Assistance from the U.S. Department of Treasury. The U.S. Department of Treasury determined that CRF funds may only cover costs incurred between March 1, 2020 and December 30, 2020. Distribution of funds was based on guidance provided by the U.S. Department of Treasury. ODHE CRF I could be used on allowable categories such as testing, payroll, and technology related to COVID-19. ODHE CRF II was expanded beyond allowable categories covered in ODHE CRF I to include refunds to students for room and board, activity fees, and tuition that were incurred as a result of COVID-19.

Following is a summary of the related funding recorded by the University during fiscal year 2021 and 2020:

	FY 21	FY 20	Total Spent	Amount Awarded	Remaining to Spend
Federal Student Share:					
HEERF I	\$ -	\$ 1,561	\$ 1,561	\$ 1,561	\$ -
HEERF II	1,421	-	1,421	1,561	140
HEERF III	-	-	-	4,444	4,444
pass thru elimination of Student Share:	<u>(1,421)</u>	<u>(1,561)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Federal Student Share	-	-	2,982	7,566	4,584
Federal Institutional Share:					
HEERF I	-	1,561	1,561	1,561	-
HEERF II	3,234	-	3,234	3,234	-
HEERF III	<u>3,937</u>	<u>-</u>	<u>3,937</u>	<u>4,437</u>	<u>500</u>
Total Federal Institutional Share	7,171	1,561	8,732	9,232	500
State Share:					
ODHE CRF I	2,543	-	2,543	2,543	-
ODHE CRF II	<u>1,272</u>	<u>-</u>	<u>1,272</u>	<u>1,272</u>	<u>-</u>
Total State Share	3,815	-	3,815	3,815	-
Total Federal and State Support	<u>\$ 10,986</u>	<u>\$ 1,561</u>	<u>\$ 15,529</u>	<u>\$ 20,613</u>	<u>\$ 5,084</u>

Federal and state support of \$10,986 and \$1,561 were included in government grants and contracts operating revenues in the Statement of Activities for the years ended June 30, 2021 and 2020, respectively.

20. SUBSEQUENT EVENTS

Other than the restoration of retirement plan contributions in July 2021 (see note 12), no other events have occurred after June 30, 2021, but before September 16, 2021, the date the financial statements were available to be issued, that require consideration as adjustments to, or disclosures in, the financial statements.

21. INFORMATION USED IN THE DETERMINATION OF THE DEPARTMENT OF EDUCATION'S FINANCIAL RESPONSIBILITY COMPOSITE SCORE

Section 498(c) of the Higher Education Act of 1965, as amended, requires for-profit and nonprofit institutions to annually submit audited financial statements to the Department of Education (ED) to demonstrate they are maintaining the standards of financial responsibility necessary to participate in the Title IV programs. One of many standards which ED utilizes to gauge the financial responsibility of an institution is a composite of three ratios derived from an institution's audited financial statements.

The financial information below provides the correspondence between certain values presented in the University's financial statements and the values as they are included in the determination of the ratios used by ED to gauge the University's financial responsibility:

	2021
Investment in plant—net, including construction in progress:	
Net book value of assets existing	
as of June 30, 2019 (Pre-implementation):	
Land	\$ 31,854
Land improvements	16,380
Buildings and building improvements	193,908
Leasehold improvements	89
Equipment	5,150
Library collection	<u>241</u>
Total	<u>247,622</u>
Net book value of assets in service	
after June 30, 2019 (Post-implementation):	
Land	2,205
Land improvements	690
Buildings and building improvements	76,434
Leasehold improvements	-
Equipment	5,874
Library collection	<u>-</u>
Total	85,203
Construction in progress	<u>13,360</u>
Investment in plant—net, including construction in progress	<u>\$ 346,185</u>
Indebtedness:	
Pre-implementation, for long term purposes	\$ 129,975
Post-implementation, for long term purposes	56,531
Post-implementation for construction in progress	-
Post-implementation, not for the purchase of investment in plant	<u>-</u>
Total	<u>\$ 186,506</u>

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